RESEARCH
Retail Trends Report
Key Research Findings

The second quarter of 2020 coincided with the nationwide lockdown in the face of the Covid-19 pandemic. As a result, trading density (sales per square meter), as measured by the MSCI South Africa Quarterly Retail Trading Density Index, were severely constrained during the quarter.

The month of April saw trading coming to an abrupt halt with only goods and services deemed as essential being transacted. More merchandise categories were permitted to trade through May and June but the overall trading density remained well off levels recorded in the same quarter of 2019.

April saw the overall trading density decline by 64.5% y/y before recovering to -31% and -27% in May and June respectively.

A trading density growth of -36.2% was recorded for the second quarter as a whole.

Trading density growth was a function of spend per head increasing by 1.4% while footcount dropped by 37.1%.

This contradicts the perception in the market that consumers are spending significantly more per capita as they limit their mall visits. The additional spend per visit is not making up for the fewer visits.

During Covid-19, centres of all sizes came under pressure.

As the trend in footcount and spend per visit changed, the type of goods and services consumers chose to spend their money on changed as well given the unique circumstances.

Among the five largest merchandise categories, Food, Health & Beauty and Department stores continued to perform well in the first quarter of the year but all saw their trading density decline in Q2 2020 compared to the same quarter a year before.

The average vacancy rate of the MSCI Retail Trading Density Index was recorded at 5.6% at June 2020, 80bps up on the previous quarter.

Regional malls had the lowest vacancy rate but keeping the vacancy rate down came at a cost as gross rental only increased by 3.7% y/y suggesting negative reversions on renewal and re-letting.

The Super Regional segment is next lowest at 5.3%, though sharply up by 60bps on the quarter before.

Scale is still important when comparing vacancy rates across the different retail segments. A 60bp increase in a Super Regional context amounts to 720sqm in a 120k sqm mall. Given an average of ~400sqm per shop this suggests that the average Super Regional mall saw 2 stores become vacant since lockdown commenced.

Aside from the impact of Covid-19 on vacancy rates, Edgars has also closed several underperforming stores during the quarter which impacted the figures.
RESULTS FOR THE QUARTER ENDED JUNE 2020.
SEPTEMBER 2020

Headline Performance

The second quarter of 2020 coincided with the nationwide lockdown in the face of the Covid-19 pandemic. As a result, trading density (sales per square meter), as measured by the MSCI South Africa Quarterly Retail Trading Density Index, were severely constrained during the quarter.

The index is based on data collected by MSCI Real Estate’s Retail Performance Benchmarking Service which quantifies sales performance as well as other key retail performance metrics across 24 merchandise categories in more than 100 retail centres, covering just shy of 5 million square meters.

The month of April saw trading coming to an abrupt halt with only goods and services deemed as essential being transacted. More merchandise categories were permitted to trade through May and June but the overall trading density remained well off levels recorded in the same quarter of 2019.

The graphic below shows the trend in annualised trading density growth, year-on-year in current price terms (not adjusted for inflation). As at June, the annualised trading density slowed to -10.5% but given what’s happened in Q2 2020, the annualised figures are not as meaningful as the monthly equivalent.

The monthly trading density trend shows the real impact of the lockdown on sales. April saw the overall trading density decline by 64.5% y/y before recovering to -31.1% and -27.1% in May and June respectively.

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**Annualised Trading Density Growth**

MSCI South Africa Retail Trading Density Index

Annualised sales/sqm growth; Current price terms; y/y

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**Monthly Trading density growth (y/y) growth since Dec-19**

Dec 19: 4.6%  Jan 20: 5.3%  Feb 20: 5.7%  Mar 20: -2.0%  Apr 20: -64.5%  May 20: -31.1%  Jun 20: -27.1%  Jul 20: -10.5%


Source: MSCI Real Estate
Drivers of trading density growth

A trading density growth of -36.2% in the second quarter of 2020 comprised a 36.3% slowdown in sales while reported trading area was marginally up 0.3% (i.e. a dilutionary impact).

Looking at it from another perspective, trading density growth was a function of spend per head increasing by 1.4% while footcount dropped by 37.1%. This contradicts the perception in the market that consumers are spending significantly more per capita as they limit their mall visits. The additional spend per visit is not making up for the fewer visits and resulted in the net effect of trading density declining by 36.2% y/y for the quarter.

As the trend in footcount and spend per visit changed, the type of goods and services consumers chose to spend their money on changed as well given the unique circumstances. The next section analyses the performance of the underlying merchandise categories.

Looking ahead to the remainder of 2020, the probability of footcounts recovering to pre-pandemic levels would be considered to be low given prevailing sentiment and the uncertainty surrounding the timeline of a possible vaccine. If the status quo remained we’d expect trading density growth to remain negative on a year over year basis.

A positive spin-off of the pandemic has been retailers’ innovative omni-channel response in the form of improved delivery services and click-and-collect offerings. As these offerings become entrenched in shopper behaviour it could signal a structural shift in bricks and mortar retail demand.

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**Trading density growth attribution – Quarter ended June 2020**

Weighted contribution to Trading Density Growth

<table>
<thead>
<tr>
<th>Impact of change in trading area</th>
<th>Sales growth</th>
<th>Footcount growth/m²</th>
<th>Spend per Head growth</th>
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</thead>
<tbody>
<tr>
<td>-0.3%</td>
<td>-36.3%</td>
<td>-37.1%</td>
<td>+1.4%</td>
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</table>

Source: MSCI Real Estate; Note: numbers may not add up due to compounding and rounding. This graphic illustrates the weighted contribution to Trading Density Growth of changes in Sales, Trading Area, Number of Shoppers and Spend per Head.

**Pandemic: Spend/visit stable but offset by significantly fewer shoppers**

Growth on same quarter year prior

Source: MSCI Real Estate
Sales Performance

The second quarter of 2020 saw the full effect of the Covid-19 pandemic on the South African economy. The nationwide lockdown negatively impacted all economic measures with GDP growth contracting by 17% quarter-on-quarter. Unemployment could continue to take further strain as employers come to terms with the fallout which will impact disposable income growth and consequently, retail sales growth.

Overall, the annualised trading density for the second quarter of 2020 declined by 36.2% year-on-year. However, looking only at the headline figures in isolation can be deceiving.

For the year to March 2020 aggregate annualised trading density growth was mainly driven by the smaller retail formats which have benefitted as shoppers favour convenience centres for an increasing proportion of their spend. However, during Covid-19, centres of all sizes came under pressure.

Large format centres came under the most pressure in April but the negative impact was more equally split in May and June.

Among the five largest merchandise categories, Food, Health & Beauty and Department stores continued to perform well in the first quarter of the year but all saw their trading density decline in Q2 2020 compared to the same quarter a year before. The next page of the report shows how broad-based the impact of the pandemic was in Q2, with all categories seeing pronounced declines in sales compared to the same quarter a year prior.
Food & Health & Beauty shine pre Lockdown

Only two categories, Food and Health & Beauty (and to a lesser degree Department Stores, Hardware and Electronics) were able to trade during the month of April. Even so, the trading density of Food and Health & Beauty retailers were 50-80% of what they would be in normal trade.

The table below shows how the level of monthly sales per sqm trended through Covid-19 and what the growth rate per category was when comparing Q2 2020 to Q2 2019.
Retailer cost of Occupancy

Retailer’s cost of occupancy, defined as the ratio of gross rental to sales, saw a sharp increase during the second quarter as many retailers were not able to trade at all at the height of the lockdown. An increase of 120bp y/y to June 2020 brought the ratio to 9.1% across the 100+ measured centres as a gross rental growth of 4.2% exceeded the 3.5% sales growth.

The surging rent to sales ratio of Super Regional malls in particular is concerning and implies a drop in tenant affordability. Retail property owners granted tenants sizable rental concessions during the quarter which provided short term relief but the sustainability of the tenant base depends on a rebound in trading activity.

The gross rent to sales ratio cited above is an annualised ratio which is based on contractual rental and does not include the impact of rental concessions and deferments. As a separate piece of analysis for its retail benchmarking clients, MSCI measured rental concessions for the second quarter of 2020 to understand the impact that these concessions had on tenant affordability and sustainability- overall, per sector and by merchandise category. Rental concessions were collected from more than 7,500 tenants across 73 shopping centres spanning more than 2.5 million square meters. We found that tenants were granted rental concessions amounting to 63% of gross rental in April followed by 37% and 16% in May and June respectively.
Retail Vacancy Rates

The average vacancy rate of the 100+ shopping centres forming part of the MSCI Retail Trading Density Index was recorded at 5.6% at June 2020, 80bps up on the previous quarter.

On a segment level, the lowest rate of vacancy is in the Regional shopping centre segment at 3.6%. This may seem surprising, bearing in mind that this segment has seen the lowest level of ATD growth. However, keeping the vacancy rate down has come at a cost as gross rental only increased by 3.7% y/y suggesting negative reversions on renewal and re-letting.

The Super Regional segment is next lowest at 5.3%, though sharply up by 60bps on the quarter before. A sense of scale is still important when comparing vacancy rate across the different retail segments. A 60bp increase in a Super Regional context amounts to 720sqm in a 120k sqm mall. Given an average of ~400sqm per shop this suggests that the average Super Regional mall saw 2 stores become vacant since lockdown commenced.

The Neighbourhood centre segment (5-12k sqm) saw a sharp increase in vacancy rate. The segment’s vacancy rate as at March 2020 was 5.2% and this increased to 7.2% as at June 2020. 2% in the context of a 10k sqm centre amounts to 200sqm which is equal to the average store size in malls of this size, suggesting on average one retailer vacated in the quarter with the space remaining unlet.

Aside from the impact of Covid-19 on vacancy rates, Edgars has also closed several underperforming stores during the quarter which impacted the figures.
RESULTS FOR THE QUARTER ENDED JUNE 2020. SEPTEMBER 2020

About the Sample

The IPD Retail sample consists of around 100 shopping centres across all geographies & centre types owned by listed real estate investment trusts, life & pension funds as well as private property funds.

The full quarterly results from 2003 onwards are available for 24 merchandise categories across 5 retail formats – from super regional down to neighbourhood centres. To subscribe to this quarterly publication please contact realestate@msci.com

SHOPPING CENTRE DEFINITION TYPES

<table>
<thead>
<tr>
<th>Type</th>
<th>Area Range</th>
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<tbody>
<tr>
<td>Super Regional shopping centre</td>
<td>&gt; 100,000sqm</td>
</tr>
<tr>
<td>Regional shopping centre</td>
<td>50,000-100,000sqm</td>
</tr>
<tr>
<td>Small Regional shopping centre</td>
<td>25,000-50,000sqm</td>
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<tr>
<td>Community shopping centre</td>
<td>12,000-25,000sqm</td>
</tr>
<tr>
<td>Neighbourhood shopping centre</td>
<td>5,000-12,000sqm</td>
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